REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

MIDWEST ENERGY COOPERATIVE

December 31, 2020 and 2019

MOSSADAMS

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Midwest Energy Cooperative
Board of Directors
December 31, 2020

Clarence A. Barth	Chairman
Ben Russell	Vice Chairman
Ronald Armstrong	Secretary
John Green	Treasurer
Fred Turk	Director
James W. Dickerson	Director
Gerry Bundle	Director
Dan Bodette	Director
Erika Escue-Cadieux	Director
Robert Hance	President and CEO

Report of Independent Auditors

The Board of Directors
Midwest Energy Cooperative
Cassopolis, Michigan

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Midwest Energy Cooperative (the Cooperative), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, equities and margins, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Cooperative’s consolidated financial statements. The consolidating balance sheet and consolidating statement of operations (collectively, “supplementary information”) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2021 on our consideration of Midwest Energy Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Midwest Energy Cooperative's internal control over financial reporting and compliance.

Moss Adams llp

Portland, Oregon
March 31, 2021

Midwest Energy Cooperative
Consolidated Balance Sheets

ASSETS

	December 31, 2020	December 31, 2019
ELECTRIC PLANT AND EQUIPMENT		
In service – at cost	$ 313,491,254	$ 295,740,395
Construction work in progress	12,452,284	6,642,929
	325,943,538	302,383,324
Less accumulated depreciation	94,676,956	85,532,281
Net electric plant and equipment	231,266,582	216,851,043
OTHER ASSETS AND INVESTMENTS		
Investments in associated organizations	32,175,042	30,101,977
Notes receivable	62,622	54,993
Grant receivable	75,271	90,078
Total other assets and investments	32,312,935	30,247,048
CURRENT ASSETS		
Cash and cash equivalents	13,969,480	9,548,457
Accounts receivable, less allowance for doubtful accounts of $939,000 and $327,000 in 2020 and 2019, respectively	6,240,564	4,684,436
Unbilled revenue	4,342,237	4,984,682
Income taxes receivable	-	50,933
Current portion of notes receivable	42,000	26,000
Materials and supplies	3,398,132	3,743,024
Inventory of subsidiary	307,482	346,408
Other current assets	1,309,424	453,357
Total current assets	29,609,319	23,837,297
DEFERRED CHARGES	80,263	142,300
Total assets	$ 293,269,099	$ 271,077,688

See accompanying notes.

LIABILITIES, EQUITIES, AND MARGINS

	December 31, 2020	December 31, 2019
EQUITIES AND MARGINS		
Patronage capital and other equities	$ 70,544,883	$ 65,576,221
LONG-TERM DEBT, less current maturities	193,243,493	176,669,661
OTHER LIABILITIES		
Post retirement benefits other than pensions	3,194,903	3,133,457
Accrued pension liability	2,196,744	1,058,001
Total other liabilities	5,391,647	4,191,458
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
CURRENT LIABILITIES		
Current maturities of long-term debt	7,192,132	6,782,958
Accounts payable		
Purchased power and cooperative payables	7,789,848	8,297,314
Regulatory liabilities – energy optimization	173,782	263,640
Other	-	746,797
Power supply cost recovery	500,076	621,242
Customer deposits	1,938,182	2,033,622
Income taxes payable	153,179	-
Accrued liabilities	5,495,199	4,939,468
Total current liabilities	23,242,398	23,685,041
DEFERRED TAX LIABILITY	846,678	940,172
DEFERRED CREDITS	-	15,135
Total liabilities, equities, and margins	$ 293,269,099	$ 271,077,688

See accompanying notes.

Midwest Energy Cooperative
Consolidated Statements of Operations

	Years Ended December 31,	
	2020	2019
OPERATING REVENUES	$ 101,760,672	$ 100,615,070
OPERATING EXPENSES		
Cost of power	45,045,350	48,006,581
Cost of goods sold	3,536,620	4,052,993
Distribution – operations	3,825,139	4,087,144
Distribution – maintenance	10,945,238	8,590,345
Customer accounts	3,478,405	3,070,152
Customer service and information expense	2,320,521	2,316,380
Administrative and general	9,125,475	9,399,107
Depreciation and amortization	11,048,866	10,173,961
Taxes – property	4,030,480	3,727,654
Total operating expenses	93,356,094	93,424,317
OPERATING MARGINS BEFORE FIXED CHARGES	8,404,578	7,190,753
FIXED CHARGES		
Interest on long-term debt	5,506,782	5,460,824
Total fixed charges	5,506,782	5,460,824
OPERATING MARGINS AFTER FIXED CHARGES	2,897,796	1,729,929
G&T AND OTHER CAPITAL CREDITS	3,508,517	3,354,636
NET OPERATING MARGINS	6,406,313	5,084,565
NON-OPERATING MARGINS		
Interest and dividend income	64,193	177,349
(Loss) gain on sale of assets	(39,775)	72,755
Other income (expense), net	862,857	(60,346)
Income tax expense	(252,218)	(299,244)
Total non-operating margins (deficits)	635,057	(109,486)
NET MARGINS	7,041,370	4,975,079
COMPREHENSIVE INCOME		
Unrealized loss on pension and post-retirement benefits other than pensions	(1,390,038)	(577,570)
COMPREHENSIVE INCOME	$ 5,651,332	$ 4,397,509

See accompanying notes.

	Years Ended December 31, 2020	2019
Patronage capital		
Balance at January 1,	$ 66,617,151	$ 62,769,286
Transfer of current year Cooperative net operating margins	5,284,562	4,022,556
Retirement of capital credits, net	(1,566,319)	(174,691)
Balance at December 31,	70,335,394	66,617,151
Non-operating margins		
Balance at January 1,	4,005,317	3,816,399
Current year Cooperative non-operating margins	882,922	188,918
Balance at December 31,	4,888,239	4,005,317
Undistributed subsidiary earnings		
Balance at January 1,	2,767,819	2,004,214
Income from subsidiary, excluded from net operating and non-operating margins	873,886	763,605
Balance at December 31,	3,641,705	2,767,819
Other equity		
Balance at January 1,	2,060,077	1,962,977
Additions	883,649	97,100
Balance at December 31,	2,943,726	2,060,077
Accumulated other comprehensive loss		
Balance at January 1,	(9,874,143)	(9,296,573)
Unrealized loss on pension and post-retirement benefits other than pensions	(1,390,038)	(577,570)
Balance at December 31,	(11,264,181)	(9,874,143)
Total equities and margins	$ 70,544,883	$ 65,576,221

Midwest Energy Cooperative
Consolidated Statements of Cash Flows

	Years Ended December 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 7,041,370	$ 4,975,079
Adjustments to reconcile net margins to net cash provided by operating activities		
Depreciation and amortization	11,048,866	10,173,961
Capital credits allocated	(3,508,517)	(3,354,636)
Gain on disposal of assets	39,775	(72,755)
Deferred taxes	(93,494)	130,880
Changes in assets and liabilities		
Customer and other accounts receivable	(1,556,128)	739,085
Unbilled revenue	642,445	354,694
Income taxes receivable	50,933	(50,933)
Inventory of subsidiary	38,926	(11,626)
Power supply cost recovery	(121,166)	(1,158,601)
Other current assets and income tax receivable	(856,067)	57,319
Deferred charges	62,037	-
Accrued pension liability	(345,539)	(30,188)
Post-retirement benefits other than pensions	155,690	54,863
Accounts payable	(1,254,263)	2,461,839
Regulatory liabilities	(89,858)	(120,441)
Income taxes payable	153,179	(9,848)
Customer deposits	(95,440)	14,825
Deferred credits	(15,135)	(5,633)
Current and accrued liabilities – other	555,731	399,789
Net cash provided by operating activities	11,853,345	14,547,673
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction and acquisition of plant, net of retirements	(25,504,180)	(22,537,412)
Decrease (increase) in		
Materials inventory	344,892	(1,205,383)
Notes receivable	(23,629)	54,086
Investments – associated organizations	1,435,452	1,250,419
Net cash used in investing activities	(23,747,465)	(22,438,290)

	Years Ended December 31, 2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on long-term debt	$ 23,766,000	$ 5,790,970
Grant receivable	14,807	14,807
Retirement of patronage capital credits, net	(1,566,319)	(174,691)
Other equity	883,649	97,100
Payments on long-term debt	(6,782,994)	(6,413,530)
Net cash provided by financing activities	16,315,143	(685,344)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,421,023	(8,575,961)
CASH AND CASH EQUIVALENTS – beginning	9,548,457	18,124,418
CASH AND CASH EQUIVALENTS – ending	$ 13,969,480	$ 9,548,457
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 5,520,235	$ 5,479,845
Cash paid for property taxes	$ 4,171,953	$ 4,046,822
Cash paid for income taxes	$ 141,600	$ 288,500

Note 1 – Nature of Organization and Operations

Midwest Energy Cooperative (Midwest or Cooperative) is a non-profit organization generally exempt from income tax under Section 501(c)(12) of the United States Internal Revenue Code. The Cooperative is engaged principally in the distribution and sale of electricity in Southwest and Southeast Michigan, Northern Indiana and Northern Ohio.

Midwest Energy, Inc. and Subsidiary, a wholly-owned subsidiary of the Cooperative, is a Michigan corporation, which was incorporated and commenced doing business January 30, 1998. Midwest Energy, Inc. and Subsidiary's principal business activity is providing propane services. The main office is located in Cassopolis, Michigan.

The Cooperative began a project for communication and fiber to the home in 2013. This includes providing phone and high-speed broadband to 15,189 customers in their service territory and beyond.

Note 2 – Summary of Significant Accounting Policies

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specific estimates include allowance for doubtful accounts, unbilled revenue, depreciation and postretirement benefit obligation. Actual results could differ from those estimates.

Principles of consolidation – The consolidated financial statements for 2020 and 2019 combine the financial results of the Cooperative and its wholly owned subsidiary Midwest Energy, Inc. and Subsidiary. The Cooperative has accounted for the investment using the equity method. All significant intercompany transactions and accounts have been eliminated.

Accounting records – The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to regulated enterprises, which conform to policies prescribed or permitted by the Michigan Public Service Commission (MPSC) and United States Department of Agriculture Rural Utilities Service (RUS). The applicable uniform system of accounts prescribed by these regulatory commissions conform in all material respects with generally accepted accounting principles as applied to rate regulated utilities.

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC) for Class A and B electric utilities.

Note 2 – Summary of Significant Accounting Policies (continued)

Electric plant and equipment – Additions with a life expectancy of more than one year are recorded at the cost of construction, which includes the cost of contracted services, direct labor and materials, and overhead items, less contributions in aid of construction received from customers. As items are retired or otherwise disposed of, the asset account is credited for the cost and the accumulated depreciation account is charged. The cost of removal, less salvage, is also charged to the accumulated depreciation account.

Cash and cash equivalents – Cash and cash equivalents include cash in bank and all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. The Cooperative places its cash and investments with high credit quality financial institutions. At times, such cash and investments may be in excess of the FDIC insurance limit.

Fair value of financial instruments – Financial instruments include cash, investments and long-term debt. Investments in associated organizations are not considered financial instruments because they represent nontransferable interests in associated organizations.

Investments in associated organizations – The carrying values of investments in associated organizations are stated at cost, adjusted for capital credits earned or retired.

Accounts receivable – Accounts receivable consist primarily of amounts due from members for electric service. An allowance for doubtful accounts has been estimated based on collection history. When a member’s account becomes past due and uncollectible, the member’s service is terminated. The Board of Directors approve all accounts charged off.

Purchased power billing – Refundable or recoverable power supply cost recovery (PSCR) credit-over collections, as well as under collections of the cost of electricity purchased not recovered or refunded through rates, are deferred and are being refunded or recovered in accordance with procedures approved by the Board.

Materials and supplies – Electrical materials and supplies are valued at lower of average cost or net realizable value.

Inventory of subsidiary – Propane inventory is recorded at the lower of cost or net realizable value using average cost.

Advertising – The cost of advertising is expensed as incurred.

Note 2 – Summary of Significant Accounting Policies (continued)

Regulation and regulatory accounting – The MPSC has jurisdiction over regulated Rural Electric Cooperatives in Michigan. On May 24, 2015, the Board of Directors voted to become member-regulated as of August 24, 2015. On that date, the Cooperative became self-regulated for rates, billing practices, and accounting standards. MPSC regulated the Cooperative's electric utility business operations and rates prior to August 24, 2015. All other aspects of electric service continue to be regulated by MPSC. Due to regulation of its rates by the Board, the Cooperative follows regulatory accounting requirements. Regulatory accounting requirements recognize that the ratemaking process can result in differences in the application of generally accepted accounting principles between regulated and non-regulated businesses. Such differences generally involve the accounting period in which various transactions enter into the determination of net margins. Accordingly, certain costs and income may be capitalized as a regulatory asset or liability that would otherwise be charged to expense or revenues. Regulatory assets and liabilities are recorded when it is probable that future rates will permit recovery and are approved by the Board.

Unclaimed property – Unclaimed property represents refunds to members of deposits, membership fees received and patronage refunds received which have not been claimed. After five years and appropriate notification, such amounts may be credited back to the Cooperative as donated capital.

Compensated absences – The Cooperative provides a flexible leave program to meet the needs of their unique employee base. Each regular employee will earn Paid Time Off (PTO) in increments that are based on their length of service on a bi-weekly basis. PTO is added to the employee's PTO bank when the bi-weekly paycheck is issued and subtracted from the employee's bank as used. Each employee may carry over unused hours of PTO, provided they do not exceed the maximum level based on years of service detailed in their accrual schedule. Employees may use extended sick leave hours on their 4th consecutive day of absence due to their own personal illness or injury. It is the Cooperative’s policy to pay one-half of the employee’s accumulated unused sick leave upon normal retirement, provided that their extended sick leave bank is equal to or greater than 520 hours.

The payout is capped at 260 hours and will be reduced by any PTO payouts taken during the employee’s tenure. For the years ended December 31, 2020 and 2019, an accrual has been made for individuals who meet the required qualifications and have attained the age of 60, which has been included in accrued liabilities on the balance sheet.

Concentration of credit risk – Financial instruments that are exposed to concentrations of credit risk consist primarily of cash, including temporary investments and receivables. Credit is extended to customers generally without collateral requirements; however, deposits are obtained from certain customers and formal shut-off procedures are in place.

Note 2 – Summary of Significant Accounting Policies (continued)

Income taxes – The Cooperative is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code. The Cooperative adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, relating to accounting for uncertain tax positions. As of December 31, 2020 and 2019, the Cooperative does not have any uncertain tax positions. The Cooperative files an exempt organization tax return in the U.S. federal jurisdiction and the state of Michigan.

Midwest Energy, Inc. and Subsidiary is a taxable for-profit corporation for both federal and state tax purposes. Income taxes are provided for in the consolidated financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are provided on an asset and liability approach whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Patronage capital – Cooperative operating margins are assigned to individual Cooperative members' capital credit accounts based upon their revenue. Amounts are assigned to members within eight months after year end. Non-operating margins are allocated to members at the discretion of the Board of Directors. Capital credits are returned to members in accordance with the Cooperative's bylaws.

Assets pledged – Substantially all assets are pledged as collateral on long-term debt payable to the Rural Utilities Service (RUS) of the United States of America, the National Rural Utilities Cooperative Finance Corporation (CFC), and CoBank Cooperative.

Recognition of patronage revenue – Patronage revenue of associated organizations is recognized in the year in which the associated organization allocates its earnings to their respective members.

Revenue recognition and unbilled revenue – Revenue is recognized when obligations under the terms of a contract with members are satisfied. Generally, this satisfaction of performance obligations and transfer of control occurs and revenues are recognized as electricity is delivered to members, including any services provided. The prices charged, and amount of consideration the Cooperative receives in exchange for its goods and services provided, are established and approved by the Cooperatives board of directors. The Cooperative recognizes revenue through the following steps: i) identifying the contract with the member; ii) identifying the performance obligations in the contract; iii) determining the transaction price; iv) allocating the transaction price to the performance obligations; and v) recognizing revenue when or as each performance obligation is satisfied.

In addition, the Cooperative records unbilled revenue for revenues from electric power delivered but not yet billed as of December 31.

Note 2 – Summary of Significant Accounting Policies (continued)

The Cooperative recognizes revenue related to phone and broadband services it provides when control of a product is transferred. Recognition of certain payments received in advance of services provided is deferred until the service is provided, i.e., when the company satisfies its performance obligation. The Cooperative records these payments as unearned revenue for services billed but not year performed at the end of the fiscal year.

Midwest Energy, Inc. recognizes revenue upon delivery of propane or appliance, when control has been transferred to the customer.

Subsequent events – Accounting standards require disclosure of the date through which subsequent events have been evaluated, as well as whether the date is the date the financial statements were issued or the date the financial statements were available to be issued. The Cooperative has evaluated subsequent events through March 31, 2021 the date the financial statements were available to be issued.

Note 3 – Electric Plant and Equipment and Depreciation Rates

Major classes of electric plant and equipment as of December 31, 2020 and 2019, consisted of:

	2020	2019
Cost		
General plant	$ 68,939,589	$ 67,702,430
Transmission plant	6,421,429	6,421,429
Distribution plant	164,969,942	158,403,990
Fiber plant	73,160,294	63,212,546
Construction in progress	12,452,284	6,642,929
Total cost	325,943,538	302,383,324
Accumulated depreciation and amortization	94,676,956	85,532,281
Net electric plant and equipment	$ 231,266,582	$ 216,851,043

Provision has been made for depreciation of the distribution plant at a straight-line composite rate of 3.0 percent per annum, except for optical network terminals (ONTs) and meters which are being depreciated at the rate of 20.0 percent and 4.6 percent per annum. Depreciation of the subsidiary's assets is computed over the estimated useful life of the assets on a straight-line method for financial reporting and an accelerated method for income tax purposes.

Note 3 – Electric Plant and Equipment and Depreciation Rates (continued)

General plant depreciation rates have been applied on a straight-line basis as follows:

Structures and improvements	2.00%
Office furniture, fixtures, data processing, and laboratory equipment	4.80–20.00%
Transportation equipment	10.00–33.30%
Stores, tools, and power operated equipment	6.00%
Communications	8.40%
Miscellaneous	9.60%
Propane tanks	3.33%

Note 4 – Investments in Associated Organizations

Investments in associated organizations consisted of the following at December 31, 2020 and 2019:

	2020	2019
National Rural Utilities Cooperative Finance Corp. (CFC)		
Capital term certificates, 5.00% maturing through 2080	$ 1,049,571	$ 1,049,571
Loan term certificates, 3.00% maturing through 2035	150,400	206,000
Patronage capital		
CFC	410,028	412,576
National Information Solutions Cooperative	346,308	337,236
Wabash Valley Power Association	6,530,794	6,866,986
Buckeye Power, Inc.	1,101,089	1,097,730
Wolverine Power Supply Cooperative, Inc.	20,360,378	18,183,419
Federated Rural Electric Insurance Cooperative, at cost	335,142	317,660
Buckeye Power, Inc. – membership	98,899	98,899
Resco (WISC)	642,664	581,760
NRTC	251,954	212,347
Other	897,815	737,793
Total	$ 32,175,042	$ 30,101,977

The accounting policies for recognition of patronage revenue are described in Note 2. Investments are pledged to secure long-term debt as described in Note 5.

Note 5 – Long-Term Debt

Long-term debt is composed of mortgage notes payable to the Rural Utilities Service (RUS) of the United States of America, the National Rural Utilities Cooperative Finance Corporation (CFC), the Federal Financing Bank (FFB), and CoBank Cooperative. Several mortgage notes to CFC and RUS will be repriced and the interest rate adjusted accordingly during the next 10 years in accordance with the policy and procedure governing such repricing. The notes are scheduled to be fully repaid at various times from 2021 through 2052. Unadvanced loan funds were available from RUS at December 31, 2020 and 2019, in the amount of $40,595,000 and $766,258, respectively.

Midwest Energy, Inc. and Subsidiary long-term debt is composed of mortgage notes payable to National Cooperative Services Corporation (NCSC). These notes are secured by substantially all assets of the organization and guaranteed by the Cooperative.

Detail of the long-term debt is as follows:

	2020	2019
Cooperative		
Notes payable to CFC in quarterly installments of $259,679, including interest at 4.35%–7.35%, with final maturity ranging from 2021 to 2032. Secured by substantially all assets.	$ 2,624,574	$ 2,887,760
Notes payable to CoBank in monthly installments of $375,861, including interest at 3.49%–4.44%, with final maturity ranging from 2032 to 2037. Secured by substantially all assets.	45,751,179	48,416,005
Notes payable to FFB in quarterly installments of $279,182, including interest at 0.92%–3.94%, with final maturity ranging from 2041 to 2052. Secured by substantially all assets.	151,832,256	131,835,842
Midwest Energy, Inc. and Subsidiary		
Notes payable to NCSC in quarterly installments including interest at 3.66%, per annum, with final maturity in 2023.	227,616	313,012
	200,435,625	183,452,619
Less current maturities	7,192,132	6,782,958
Total long-term debt, less current maturities	$ 193,243,493	$ 176,669,661

Note 5 – Long-Term Debt (continued)

Maturities of long-term debt for each of the next five years are as follows:

2021	$ 7,192,132
2022	7,869,505
2023	7,748,225
2024	7,807,645
2025	7,986,650
Thereafter	161,831,468
	$ 200,435,625

Note 6 – Line of Credit

The Cooperative has available a line of credit with CFC in the amount of $10,000,000 for both 2020 and 2019. There was no liability at December 31, 2020 and 2019.

The Cooperative has available a line of credit with CoBank in the amount of $10,000,000 for 2020 and 2019. The Cooperative has no amounts outstanding as of December 31, 2020 and 2019.

Midwest Energy, Inc. and Subsidiary had available a $3,750,000, 60 month revolving line of credit with NCSC for 2020 and 2019 with a variable interest rate. The line of credit matures in 2023. Midwest Energy, Inc. and Subsidiary has no amounts outstanding as of December 31, 2020 and 2019. The agreement provides that Midwest Energy Cooperative unconditionally guarantee all amounts due on the loan.

Note 7 – Commitments and Contingencies

Wholesale power commitment – Under its wholesale power agreement, the Cooperative is committed to purchase most of its electric power and energy requirements from Wolverine Power Supply Cooperative, Inc., until December 31, 2050. The rates paid for such purchases are subject to approval of the Federal Energy Regulatory Commission (FERC).

Propane purchase commitment – Midwest Energy has entered into contracts with Plains Marketing Canada, L.P. and Crestwood Services, LLC to buy propane gas for a specific period, in agreed upon quantities and at agreed upon prices. These transactions lock in the price Midwest Energy will be paying for such gas in the upcoming heating season. Upon entering these contracts, Midwest Energy pays a security deposit for such commitments. This deposit is deducted from each invoice for propane gas upon delivery. As of December 31, 2020, Midwest Energy’s related commitment to buy such propane gas from January 1, 2021 through December 31, 2021 totaled 3,352,621 gallons at an average price per gallon of $0.62. As of December 31, 2020, Midwest Energy also had other commitments to buy propane gas from January 1, 2021 through May 31, 2021 that totaled 3,385,000 gallons at an average price per gallon of $0.68.

Note 7 – Commitments and Contingencies (continued)

Legal – In the normal course of business, Midwest is a party to claims and matters of litigation. The ultimate outcome of these matters cannot presently be determined; however, in the opinion of management of the Cooperative, the resolution of these matters will not have a material adverse effect on Midwest's financial position, results of operations or liquidity.

Union contracts – The Cooperative has an agreement with two separate unions. One union represents 17 inside staff including the customer service and billing employees. The other union represents 40 outside staff. As of December 31, 2020, 53% of the employees were covered by the two union contracts. The agreement for inside employees expires on July 15, 2023. The agreement with outside employees expires September 1, 2023.

Note 8 – Retirement Plans

The Cooperative has a defined benefit pension plan covering 40 employees. As of January 1, 2007, the plan was closed to all new non-union staff and inside union staff. As of January 1, 2009, the plan was closed to all new outside union staff. Retirement benefits are based on a percentage of compensation, as defined in the plan, and benefits vested after completion of five years of service or age 55. The normal retirement age is 62. The assets of the plan consist primarily of mutual funds. The Cooperative's funding policy is to contribute so as to amortize the unfunded actuarial accrued liabilities over a 30-year period from January 1, 1987.

The following table sets forth the plan's funded status and amounts recognized in the Cooperative's financial statements at December 31, 2020 and 2019:

Note 8 – Retirement Plans (continued)

	2020	2019
Actuarial present value of benefit obligations		
Accumulated benefit obligation, including vested benefits	$ 37,980,979	$ 33,520,439
Change in benefit obligation		
Benefit obligation at beginning of year	$ 36,511,014	$ 30,786,651
Service cost	1,006,539	872,592
Interest cost	1,195,837	1,274,016
Actuarial gain (loss)	4,345,622	4,546,212
Benefits paid	(1,000,005)	(968,457)
Benefit obligation at end of year	$ 42,059,007	$ 36,511,014
Change in plan assets		
Fair value of plan assets at beginning of year	$ 35,659,339	$ 30,048,568
Actual return on plan assets	4,443,184	5,579,228
Employer contributions	1,000,000	1,000,000
Benefits paid	(1,000,005)	(968,457)
Fair value of plan assets at end of year	$ 40,102,518	$ 35,659,339
Reconciliation of funded status		
Funded status underfunded	$ (1,956,489)	$ (851,675)
Service cost – benefits earned during the period	$ 1,006,539	$ 872,592
Interest cost on projected benefit obligation	1,195,837	1,274,016
Return on plan assets	(2,158,133)	(1,840,271)
Net amortization and deferral	611,161	629,429
Amortization of prior service cost	(34,872)	(34,872)
Net periodic pension cost	$ 620,532	$ 900,894
Amounts recognized in accumulated other comprehensive loss – ending	$(11,484,254)	$ (9,999,972)

The Cooperative expects to contribute $1,240,000 to its pension plan in 2021. Future expected benefit payments are as follows:

2021	$ 1,240,000
2022	1,290,000
2023	1,330,000
2024	1,340,000
2025	1,370,000
2026–2030	8,410,000

Note 8 – Retirement Plans (continued)

The investment strategy is to build an efficient, well-diversified portfolio based on long-term, strategic outlook of the investment markets. The investment market outlook utilizes both historical-based and forward looking return forecasts to establish future return expectations for various asset classes. These return expectations are used to develop a core asset allocation based on the needs of the plan. The core asset allocation utilizes investment portfolios of various asset classes and multiple investment managers in order to help maximize the plans return while providing multiple layers of diversification to help minimize risk.

The plan investments are stated at fair market value. There were no restricted investments as of December 31, 2020 and 2019. The Cooperative has determined that its investments in the pension plan fall into the Level 1 category. Level 1 asset valuations are based on assets at the quoted prices in active markets for identical assets, level 2 asset valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly and level 3 asset valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Asset allocation for Midwest Energy Cooperative as of December 31 as follows:

	2020	2019
U.S. large cap equity	$ 12,434,937	$ 10,584,191
U.S. small/mid cap equity	2,119,040	1,882,577
International equity	7,388,820	6,832,446
Balanced	-	718,777
Fixed income	16,029,360	13,551,912
Other	2,130,361	2,089,436
Total	$ 40,102,518	$ 35,659,339

Weighted-average assumptions used to determine net periodic benefit costs as of December 31 were:

	2020	2019
Discount rate	3.33%	4.21%
Expected long-term return on plan assets	6.50%	6.50%
Rate of compensation increase	3.25%	3.25%

The Cooperative established an unfunded 457(f) deferred compensation plan in 2014 for the purposes of providing benefits for a select group of management or highly compensated employees within the regulations of the Employee Retirement Income Security Act (ERISA). New participants may be added to the plan at the discretion of the Board of Directors.

Note 8 – Retirement Plans (continued)

The plan provides for a deferred compensation benefit equal to the difference between the single lump sum actuarial equivalents of the benefit that the Participant would have accrued under the Cooperative Pension Plan as calculated by the Cooperative without application of the limitations provided in Sections 415 and 401(a)(17) of the Code, and the Participant's accrued benefit under the Cooperative Pension Plan as calculated by the Cooperative after application of those limitations under Code Sections 415 and 401(a)(17). The missed benefit is calculated each year and is recorded to accrued pension liability on the consolidated balance sheet. As of December 31, 2020 and 2019, the related liability for this plan was approximately $0.

Note 9 – Post-Retirement Benefits Other Than Pensions

The Cooperative sponsors a defined benefit post-retirement plan that covers both salaried and non-salaried employees, but none of its subsidiary employees. The plan provides for medical benefits for retirees between the ages of 60 and 65. The Cooperative's funding policy is pay-as-you-go.

Effective January 1, 2020, employees may retire at age 60 and will be responsible for the same level of cost sharing as active employees including 15% for HDHP and 20% for PPO. No payments will be made after the attainment of age 65.

The following table sets forth the plan's combined funded status reconciled with the amount shown in the Cooperative's consolidated financial statements at December 31, 2020 and 2019:

	2020	2019
Accrued post-retirement benefit costs, beginning	$ (3,133,457)	$ (2,713,721)
Service cost	(187,710)	(118,232)
Interest cost	(100,848)	(109,406)
Actuarial gain (loss)	118,178	(661,599)
Prior service credit	-	312,096
Plan participant contributions	(2,297)	(10,924)
Benefits paid	111,231	168,329
Accrued post-retirement benefit cost, end of year	$ (3,194,903)	$ (3,133,457)

Note 9 – Post-Retirement Benefits Other Than Pensions (continued)

Net periodic post-retirement benefit cost includes the following components:

	2020	2019
Service cost-benefits attributed to service during the period	$ 187,710	$ 118,232
Interest cost	100,848	109,406
Net amortization and deferral	-	(15,370)
Net periodic post-retirement benefit cost	$ 288,558	$ 212,268
Amounts recognized in accumulated other comprehensive loss:		
Net actuarial gains (losses)	$ (68,089)	$ (186,267)
Net prior service credit	288,162	312,096
Total recognized in other comprehensive income	$ 220,073	$ 125,829

In 2022, medical costs are expected to increase 7.00% for pre-65 medicals, 6.50% for post-65 medicals, and then drop to 4.50% per year in 2031 and after for both categories.

The weighted average discount rate used in determining the accumulated post-retirement benefit obligation is 3.33% and 4.21% for 2020 and 2019, respectively.

Benefit payments of $210,000 are expected for 2021, $170,000 for 2022 $150,000 for 2023, $140,000 for 2024, $140,000 for 2025 and $1,400,000 for 2026–2030.

Note 10 – Income Taxes

The provision for income taxes for Midwest Energy, Inc. and Subsidiary consists of the following as of and for the year ended December 31:

	2020	2019
Current	$ 345,711	$ 177,801
Deferred	(93,493)	121,443
Income tax (benefit) expense	$ 252,218	$ 299,244

Note 10 – Income Taxes (continued)

The net deferred tax liability as of December 31 consists of the following:

	2020	2019
Deferred tax assets		
Allowance for bad debt	$ 20,614	$ 18,893
Accrued vacation & sick leave	11,754	10,600
AMT credits	-	9,437
Total deferred tax assets	32,368	38,930
Deferred tax liabilities		
Tax depreciation greater than book	(879,046)	(966,293)
Other	-	(12,809)
Total deferred tax liabilities	(879,046)	(979,102)
Net deferred tax liability	$ (846,678)	$ (940,172)

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted. The CARES Act changed net loss carryforward and back provisions and the business interest expense limitation. The Company has evaluated the impact of the CARES Act and determined that none of the changes would result in a material cash benefit to the Company.

Note 11 – Related Party Transactions

Midwest Energy, Inc. and Subsidiary is a wholly-owned subsidiary of Midwest Energy Cooperative. In addition, Midwest Energy Cooperative has furnished some personnel, office space, and other necessary operating facilities such as computer time for Midwest Energy, Inc. and Subsidiary's operations. During the year, Midwest Energy Cooperative charged Midwest Energy, Inc. and Subsidiary's operations for such services. Midwest Energy, Inc. advanced a note payable to the Cooperative for the fiber activity in the amount of $5,906,754 and $5,703,908 for 2020 and 2019, respectively, bearing an interest rate of 3.50%. There is currently no firm payment plan established on the note payable due to Midwest Energy, Inc. and Subsidiary. These transactions have been eliminated in the consolidated financial statements.

Note 12 – Revenue Recognition

The following table presents the Cooperative's revenue, disaggregated by member type for the year ended December 31:

	2020	2019
Midwest Energy Cooperative		
Residential electric service	$ 52,197,598	$ 50,948,885
Irrigation electric service	2,798,684	2,943,587
Small commercial electric service	10,256,988	10,162,205
Large commercial electric service	11,028,328	10,860,423
Industrial electric service	4,333,233	6,856,458
Other electric revenues	1,968,314	2,021,183
Fiber service	11,837,070	8,979,662
Midwest Energy, Inc.		
Propane sales	7,026,800	7,471,782
Other	313,660	370,885
Total	$ 101,760,675	$ 100,615,070

Midwest Energy Cooperative – The Cooperative's primary revenue source is generated through the sale of electricity to members. Retail members are classified as residential, irrigation, commercial, or industrial. Residential members include single family housing, multiple family housing (such as apartments, duplexes, and town homes), manufactured homes, and small farms. Residential demand is sensitive to the effects of weather, with demand highest during the winter heating season and summer cooling season. Irrigation members consist of large farms who accept energy at high voltages. Commercial members consist of non-residential members who accept energy deliveries at voltages equivalent to those delivered to residential members. Commercial members include most businesses, small industrial companies, and public street and highway lighting accounts. Industrial members consist of non-residential members who accept delivery at higher voltages than commercial members. Demand from industrial members is primarily driven by economic conditions, with weather having little impact on energy use by this member class.

In accordance with state regulations, the Cooperative's retail member prices are based on the Cooperative's cost of service and are approved by the Cooperative's Board of Directors. The Cooperative's obligation to sell electricity to retail members generally represents a single performance obligation representing a series of distinct goods that are substantially the same and have the same pattern of transfer to the member that is satisfied over time as members simultaneously receive and consume the benefits provided. The Cooperative applies the invoice method to measure its progress towards satisfactorily completing its performance obligations to transfer each distinct delivery of electricity in the series to the member.

Note 12 – Revenue Recognition (continued)

Other operating revenues consist primarily of fiber revenues and other electric services provided to members. Revenue from sales of equipment or other nonrecurring services are recognized at a point in time when control of the equipment is transferred or when service is rendered.

Midwest Energy, Inc. – Midwest Energy Inc.'s (the Company) primary revenue source is generated through the sale of propane to customers in the region. Customers include single family housing, multiple family housing (such as apartments, duplexes, and town homes), and manufactured homes. The propane prices are based on the cost of service. The Company's obligation to sell propane to retail customers generally represents a single performance obligation representing a series of distinct goods that are substantially the same and have the same pattern of transfer to the customer that is satisfied over time as customers simultaneously receive and consume the benefits provided.

Note 13 – Risks and Uncertainties

The COVID-19 outbreak disrupted supply chains and affected production and sales across a range of industries. The extent of the impact of COVID-19 on the Cooperative's operational and financial performance was not significant for 2020.The future financial and operational impact from COVID-19 is unknown.

Supplementary Information

Midwest Energy Cooperative
Consolidating Balance Sheet
December 31, 2020

ASSETS

	Midwest Energy Cooperative	Midwest Energy Inc. and Subsidiary	Eliminations	Consolidated Total
ELECTRIC PLANT				
In service – at cost	$ 305,001,062	$ 8,490,192	$ -	$ 313,491,254
Construction work in progress	12,452,284	-	-	12,452,284
	317,453,346	8,490,192	-	325,943,538
Less accumulated depreciation	89,766,880	4,910,076	-	94,676,956
Net electric plant	227,686,466	3,580,116	-	231,266,582
OTHER ASSETS AND INVESTMENTS				
Investments in associated organizations	42,316,849	-	(10,141,807)	32,175,042
Notes receivable	62,622	5,906,754	(5,906,754)	62,622
Receivables from subsidiary	104,376	-	(104,376)	-
Grant receivable	75,271	-	-	75,271
Total other assets and investments	42,559,118	5,906,754	(16,152,937)	32,312,935
CURRENT ASSETS				
Cash and cash equivalents	12,274,382	1,695,098	-	13,969,480
Accounts receivable, less allowance for doubtful accounts of approximately $939,000	5,325,563	915,081	(80)	6,240,564
Accounts receivable, associated organizations	-	33,288	(33,288)	-
Unbilled revenue	4,342,237	-	-	4,342,237
Income taxes receivable	-	-	-	-
Current portion of notes receivable	42,000	-	-	42,000
Materials and supplies	3,398,132	-	-	3,398,132
Inventory of subsidiary	-	307,482	-	307,482
Other current assets and accrued assets	760,060	577,364	(28,000)	1,309,424
Total current assets	26,142,374	3,528,313	(61,368)	29,609,319
DEFERRED CHARGES	80,263	-	-	80,263
Total assets	$ 296,468,221	$ 13,015,183	$ (16,214,305)	$ 293,269,099

Midwest Energy Cooperative
Consolidating Balance Sheet
December 31, 2020

LIABILITIES, EQUITIES, AND MARGINS

	Midwest Energy Cooperative	Midwest Energy Inc. and Subsidiary	Eliminations	Consolidated Total
EQUITIES				
Patronage capital and other equities	$ 70,544,883	$ 10,141,807	$ (10,141,807)	$ 70,544,883
LONG-TERM DEBT, NET OF CURRENT MATURITIES	193,104,443	139,050	-	193,243,493
OTHER LIABILITIES				
Post-retirement benefits other than pensions	3,194,903	-	-	3,194,903
Accrued pension liability	2,196,744	-	-	2,196,744
Total other liabilities	5,391,647	-	-	5,391,647
COMMITMENTS AND CONTINGENCIES (NOTE 7)				
CURRENT LIABILITIES				
Current maturities of long-term debt	7,103,566	88,566	-	7,192,132
Accounts payable				
Purchased power and cooperative payables	7,493,765	296,083	-	7,789,848
Regulatory liabilities – energy optimization	173,782	-	-	173,782
Associated organizations	33,368	104,376	(137,744)	-
Other	1,000	-	(1,000)	-
Power supply cost recovery	500,076	-	-	500,076
Customer deposits	790,493	1,147,689	-	1,938,182
Accrued liabilities	5,397,444	97,755	-	5,495,199
Income taxes payable	-	153,179	-	153,179
Note payable to subsidiary	5,906,754	-	(5,906,754)	-
Total current liabilities	27,400,248	1,887,648	(6,045,498)	23,242,398
DEFERRED TAX LIABILITY	-	846,678	-	846,678
DEFERRED CREDITS	27,000	-	(27,000)	-
Total liabilities, equities, and margins	$ 296,468,221	$ 13,015,183	$ (16,214,305)	$ 293,269,099

Midwest Energy Cooperative
Consolidating Statement of Operations
December 31, 2020

	Midwest Energy Cooperative	Midwest Energy Inc. and Subsidiary	Eliminations	Consolidated Total
OPERATING REVENUES	$ 94,479,384	$ 7,340,460	$ (59,172)	$ 101,760,672
OPERATING EXPENSES				
Cost of power	45,045,350	-	-	45,045,350
Cost of goods sold	-	3,536,620	-	3,536,620
Distribution – operations	3,825,139	-	-	3,825,139
Distribution – maintenance	10,945,238	-	-	10,945,238
Customer accounts	3,478,405	-	-	3,478,405
Customer service and information expense	2,320,521	-	-	2,320,521
Administrative and general	6,797,322	2,387,325	(59,172)	9,125,475
Depreciation and amortization	10,573,061	475,805	-	11,048,866
Taxes – property	4,018,968	11,512	-	4,030,480
Total operating expenses	87,004,004	6,411,262	(59,172)	93,356,094
OPERATING MARGINS BEFORE FIXED CHARGES	7,475,380	929,198	-	8,404,578
FIXED CHARGES				
Interest on long-term debt	5,699,335	10,293	(202,846)	5,506,782
Total fixed charges	5,699,335	10,293	(202,846)	5,506,782
OPERATING MARGINS (DEFICITS) AFTER FIXED CHARGES	1,776,045	918,905	202,846	2,897,796
G&T AND OTHER CAPITAL CREDITS	3,508,517	-	-	3,508,517
NET OPERATING MARGINS	5,284,562	918,905	202,846	6,406,313
NON-OPERATING MARGINS (DEFICITS)				
Interest and dividend income	64,193	202,846	(202,846)	64,193
Income from subsidiary	873,886	-	(873,886)	-
Gain (loss) on sale of assets	(44,128)	4,353	-	(39,775)
Other income (expense)	862,857	-	-	862,857
Income tax benefit (expense)	-	(252,218)	-	(252,218)
TOTAL NON-OPERATING MARGINS (DEFICITS)	1,756,808	(45,019)	(1,076,732)	635,057
NET MARGINS	7,041,370	873,886	(873,886)	7,041,370
COMPREHENSIVE LOSS				
Unrealized loss on pension and post-retirement benefits other than pensions	(1,390,038)	-	-	(1,390,038)
COMPREHENSIVE INCOME	$ 5,651,332	$ 873,886	$ (873,886)	$ 5,651,332

 See report of independent auditors

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Midwest Energy Cooperative

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Midwest Energy Cooperative (the "Cooperative") as of and for the year ended December 31, 2020, and the related notes to the consolidated financial statements, which collectively comprise Midwest Energy Cooperative's consolidated financial statements, and have issued our report thereon dated March 31, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Midwest Energy Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Moss Adams llp

Portland, Oregon
March 31, 2021

MOSSADAMS